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SUBJECT: ZHEJIANG VICE GOVERNOR PROMOTED TO COMMERCE VICE MINISTER

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Summary

¶1. (SBU) China's State Council recently appointed Zhejiang Vice Governor Zhong Shan to move to the Ministry of Commerce (MOFCOM) as Vice Minister. Zhong has served in Zhejiang's provincial government since 2003 during a period of rapid economic growth and the expansion of trade and investment ties. The United States remains one of the province's top investors, but U.S. cooperation with Zhejiang has been hindered in recent years by poor intellectual property rights enforcement and lingering trade disputes. Although in charge of the province's foreign affairs portfolio during his tenure as Vice Governor, Zhong has not historically had much contact with the Consulate. End Summary.

Moving To MOFCOM

¶2. (SBU) China's State Council recently tapped Zhejiang Vice Governor Zhong Shan to replace MOFCOM Vice Minister Yu Guangzhou. Zhong's appointment was one of nine personnel moves announced on December 10. Zhong is expected to take over Yu's portfolio, which according to the MOFCOM website had included the Department of General Economic Affairs, Department of European Affairs, Department of Foreign Affairs, MOFCOM Party Committee, Department of Retired Cadres' Affairs, the China Foreign Trade Center, and China-Europe Association.

Zhejiang's Economy

¶3. (SBU) Named Vice Governor of Zhejiang in 2003, Zhong served in the provincial government during a period of rapid economic growth. Zhejiang is known for its broad-based, entrepreneurial capitalism, and large number of private enterprises. Per capita GDP in 2007 reached USD 4883, well above the national average of USD 2226, and the province's GDP accounted for 9 percent of the nation's total in 2007. Despite reports that there are an increasing number of factory closures in the province, especially in the export sector, Zhejiang's GDP continued to

grow through the first three quarters of 2008, increasing by 10.6 percent over the same period in 2007 to USD 224 billion.

#### Zhejiang's Cooperation with the Consulate

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¶ 14. (SBU) In recent years, the Consulate's cooperation with Zhejiang Province has been good, although not as active and deep as our cooperation with Jiangsu. Notable visits include Treasury Secretary Paulson to Hangzhou in September 2006 and SED Ambassador Holmer to Ningbo in May 2008. Ambassador Randt's visits to Zhejiang most recently included his participation in the November 2008 re-interment ceremony for the ashes of Ambassador Leighton, an event in which Zhejiang officials were among those making important preparatory contributions. The United States remains among Zhejiang's top investors, accounting for over 4,700 U.S.-invested projects by 2007. Prominent U.S. investors include General Motors, Merck, Motorola, and General Mills.

#### IPR Problems and Trade Disputes Hinder Ties

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¶ 15. (SBU) Poor intellectual property rights (IPR) enforcement and lingering trade disputes, however, have hindered fuller development of ties and cooperation between the USG and Zhejiang Province. Since the United States filed an IPR-related case in the WTO, Zhejiang largely refused - up until a January 12, 2009 meeting (forthcoming septel) - to cooperate with the Consulate on IP-related issues. FCS Shanghai has dealt with a growing number of business disputes related to American investors in Zhejiang, mostly in Hangzhou, the provincial capital. Some of

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these cases appear to involve meddling by senior provincial officials or harmful actions by provincial state-owned enterprises (SOEs).

#### Zhong Shan's Role

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¶ 16. (SBU) Although in charge of the province's foreign affairs portfolio during his tenure as Vice Governor, Zhong has not historically had much contact with the Consulate. Previous Consul Generals have written letters to Zhong regarding investment disputes or political issues, but Vice Governor Zhong did not normally reply. Zhong regularly attended international trade and investment fairs in the province

#### Zhejiang Cadres' Views

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¶ 17. (SBU) According to Zhejiang Province Foreign Affairs Officials (FAO) speaking on January 12, 2009, Zhong is of course acquainted with Vice President Xi Jinping from their shared time of service in Zhejiang, including participation at some major business events, such as ceremonies to announce new investments in Zhejiang. However, the FAO officials point to former Vice Premier Wu Yi as having identified Zhong as a successful foreign trade and foreign investment bureaucrat and think it most likely that she had laid groundwork for Zhong's elevation to the Central Government, rather than something Xi Jinping had done. The FAO officials spoke highly of Zhong's pro-active approach to reach out to foreign businesses in Zhejiang and to ensure that provincial government departments addressed concerns raised by foreign-invested enterprises. He warned about slowing foreign trade in the first half of 2008 and instructed provincial departments to try to prevent that.

#### Comment

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¶ 18. (SBU) The Consulate has had little direct contact with Zhong, and Zhejiang's record on economic and commercial issues is mixed -- the province strongly promotes private enterprise and at least through much of 2008 continued to grow rapidly, but the

provincial government has failed to protect adequately IPR or sometimes failed to protect the interests of foreign investors.

Bio Note: Zhong Shan

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¶9. (SBU) Zhong Shan is a native of Zhejiang Province, born in 1955 in Shangyu. He joined the Chinese Communist Party (CCP) in 1974 and earned a PhD in economics from Zhejiang University. Zhong has a business background, having served as CEO of the Zhejiang Provincial International Ad Company, and CEO and Party Secretary of both the Zhejiang Apparel Import and Export Company and Zhejiang Zhongda Company. He later became Director General and Party Secretary of the Zhejiang Provincial Economic and Trade Cooperation Bureau. He was named Vice Governor of Zhejiang Province in 2003 and appointed to his new post as Vice Minister of Commerce on December 10, 2008.

¶10. (SBU) According to Zhejiang FAO officials, Zhong's portfolio in Zhejiang Province included foreign trade and investment, tourism, and religious affairs. Zhong has a daughter now studying at Tsinghua University in Beijing. One of the FAO speakers on January 12 recounted that Zhong had been listed in a Taiwan publication in a recent year which identified up and coming Fifth Generation leaders in China. (The FAO official also said the current Party Secretary in Ningbo and a Party Central Organization Department (zhongyang zuzhibu) official surnamed Chen were other predicted future leaders in that same Taiwan publication.)

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